THE FINANCIAL SITUATION.

Dealings in stocks during the fore part of last week were marked by a continuation of that liquidating movement that had been running with greater or less violence practically ever since the beginning of the month; and at one time on Wednesday prices of stocks on the average were lower than they had been at any time hitherto during the entire year. After this there was a recovery in values, based partially upon a clearly oversold condition of the market and partially upon an improvement in prevailing conditions. There were indications that the forced selling of the Northern Pacific and Great Northern preferred shares, which has been the dominant feature of the market lately, was completed, and it was commonly understood that two or three weak places in the speculative situation had been strengthened. The decline in these stocks, and indeed in the market as a whole, had certainly gone far enough to warrant an upward reaction, at least, in prices of something more than mere momentary importance. From the beginning of the break—which was about the time when the large new capital issues of the Great Northern preferred and Northern Pacific stocks were announced, this being preceded by the publication of the financial plan of the Atchison and followed by that of the Chicago, Milwaukee and St. Paul company—the Great Northern preferred shares had fallen 70 points, taking into calculation, of course, current valuations for the Great Northern ore certificates; and there had been a decline of 45½ points in Northern Pacific, 33½ in Reading, 11 in Union Pacific and from 10 to 20 points generally in other prominent stocks. Furthermore, it began to seem likely that there was to be no extraordinary monetary stress around the end of the year. Call money held during the week at a relatively low level, and all the probabilities were that whatever flurry in money rates there was around January 1 would be very short lived. The stringency in time money was not abated, and this led naturally to varying views as to the character of the monetary situation in the general future as distinguished from that in the days or weeks immediately at hand. There began to be noticeable a slight, even if a very slight, return of money from the interior of the country, and the hope quickened that this sending back of funds, so long delayed, would surely gather force as a stock market factor early in January. Sterling exchange, too, was persistently weak, falling to a point that would have made gold imports under ordinary circumstances almost inevitable. Yet our bankers persistently refused to take gold from Europe—that is to say, of course, from London—knowing or believing that this action would result in a disturbance in the London market and would cause greater harm than good here. This is a phase of the situation that is the subject of rather deep study just now in high financial quarters. Coupled with the known volume of our exports and with the meagre balance of actual money in bank reserves in England against bank deposits, it suggests queries that cannot be readily or carelessly answered. There were really no very specific developments of note last week from a financial point of view. The threatened strike of yardmen at the local railroad terminals was averted, as everybody believed it would be, and the strike of firemen on the Southern Pacific lines did not appear to amount to much. There were various occurrences pointing to the immense and substantial strength of the market for copper metal and of the current and seemingly assured future prosperity of the iron and steel business. The failure at the close of the week preceding of a Stock Exchange house, that if it was not large yet could hardly be said to be small, no doubt affected the security market somewhat in the early days of the week, since it inspired a call for margins from customers on the part of commission houses that in many cases was not responded to. The confusion over the adjustment of the rights of stockholders to subscribe to the Chicago, Milwaukee and St. Paul Railroad Company's new issue of common and preferred stock was not perhaps a matter of market importance, except as it intensified the irritation commonly felt in the financial district over the bungling manner in which the issue of stock was made.

During the year that to-day reaches its close the stock market has been on the whole a feverish and uncertain affair, and while its results have not been displeasing to investors they have been such as to make the profits of professional speculators small. Indeed there is little doubt that the great majority of habitual traders in the stock market have, taking the year as an entirety, lost money. All these "operators" say that the market has been one that has been very hard for them to read. Although transactions in it have been in large volume, the market has been neither continuously weak nor strong for any long period; fluctuations in it have been violent and spasmodic, oftentimes without any apparent reason, and its course has been so fitful, irregular and variable that those who have attempted to follow its movements in a speculative way have found the task one that severely taxed their powers of judgment. The characteristic of the market at the end of the year preceding was, as all will remember, the enthusiastic advances made in it, although as high rates for the use of call money were paid for the purpose of carrying on this speculation as had been seen at any time in the present generation. The strength in the market had been continued for several months previously, despite a stringent money situation; such stringency, of course, being by no means as great as that which has been prevailing in the last half of the present year, owing to the fact that in 1905, as compared with 1906, time money could be had on fairly easy terms. From August to December, 1905, however, the market was buoyed up with the hope that whatever money difficulties there were were of fleeting character, and that early in the next year there would be such an unloosening of the pocketbooks both of bankers and of the people as would make money very easy in Wall Street. In the first week of January, 1906, however, the market broke violently upon the failure of this ease in money to put in an appearance as early as had been anticipated, and although ease in money, or what was relatively such, did follow later in the month the market did not resume its advance; and, indeed, although during the month of February and the early part of March the ease in money became pronounced, the course of values during this period bore evidence to an unceasing, if carefully conducted, liquidation by those who had bought stocks in the excited speculative movement during the latter part of 1905. After this, dulness and idleness was as much a feature of the market as anything else. The call money rate took a spurt at the time of the April disbursements to the highest quotations seen on the Stock Exchange at that time of the year for twenty-five years, and although sterling became very weak and gold imports were made in quantity under Secretary Shaw's grant of facilities to the banks for undertaking such operations the stock market turned weak and remained so during the rest of the month, the decline being accentuated by the terrible catastrophe in San Francisco. Through the month of May and up to the beginning of June the market was quiet and variable, becoming weak at the end of June under selling of stocks attributed to the disgust of the larger financial interests over the Government's policy in regard to corporation matters. There was again a recovery followed by a break in July, the last movement being caused ostensibly by the weakness in the foreign markets owing to the drop in Russian bonds and general fear of financial troubles in Russia. Dulness and irregularity again prevailed up to the middle of August, when the entirely unexpected announcements of the 10 per cent. dividend rate on the Union Pacific common stock and 5 per cent. on the Southern Pacific shares caused a violent rise in prices. On August 20 there was heavier trading than on any day since 1904 and the market held strong throughout the rest of the month despite the failure of the Real Estate Trust Company of Philadelphia for $7,000,000. As September began the money situation loomed up as the one important influence that the market had to deal with. Although there were further heavy imports of gold the local Clearing House institutions reported the largest deficit in their reserve holdings recorded since 1903. Time money rates advanced to 7 per cent. and the stock market became weak, the political campaign in this State playing some part in the decline. The market again rallied almost as much as it had previously declined, but was still unsettled and fell violently in the middle of October on the news of the advance in the Bank of England's discount rate to 6 per cent. Recoveries, dulness, sharp advances and declines were since intermingled in heterogeneous manner up to December 1, and during the present month the tendency of the market has been rather steadily downward. During all this time, or at least until the very end of the year, there was no diagnostician of market conditions who was not impressed with the salient fact that the market was always and continually under the perfect control of the great financial powers. It never passed "out of hand," and its resilience was so effectively displayed that it afforded not the slightest temptation for speculative ventures for a fall in values. Again, while the security market was wabbling about in this way, business throughout the country was mounting without any cessation or reaction whatever to new record heights of prosperity and affluence. The quantitative output of the country's crops was never exceeded and their value rose to the mark of $7,000,000,000, never before recorded. In the last quarter of the year there was added to the wages of railroad employees alone an annual distribution at the rate of over $100,000,000. Only superlative expressions could be used to describe the state of the iron and steel business and manufacturing industries of every description, the influx of immigration, the enormous bank clearings, the output of the mines and the general demands made by business upon the country's supply of labor; while the only stories heard from the country's railway organizations was their inability to handle the huge volume of business that they were asked to take care of.

The curious feature of the situation was, thus, that in spite of a presence of prosperity throughout the country so great as to have been almost unbelievable a few years ago, the stock market did not advance. Prices at no time rose above the high level recorded in the first week in January, and at the end of the year are considerably below this average. It was not, indeed, until the latter part of the year that it became evident what the trouble was. The vast business of the country had brought about such an absorption of money that although the supply of money had itself enlarged enormously and had been immensely swollen also throughout the decade preceding, it was still not large enough to make the buying of stocks for a rise on a margin basis other than a costly operation or to avert a disparity between the interest yield of stocks and the price of money in the open market. In the expense of commission house brokerage dues, the stock transfer tax and the high interest charges made for "carrying" stocks a large mathematical percentage against the speculator for the advance in securities was clearly presented. Against this force the stock market bore up wonderfully throughout the year as a whole, people still looking, and with good reason, upon the actual value of properties and their large undivided surplus earnings, which were constantly being increased, rather than the matter of a current distribution of equities or profits. Toward the end of the year, however, the pressure of monetary conditions became too great to be borne without some recession in market valuations. After the value of the long talked of "rights," or at least some of them, had been or were, as an immediate prospect, deducted from the Northern Pacific, Great Northern and St. Paul stocks, the feeling gained ground that these high priced stocks were selling at a level unwarrantedly high in the face of the existing money market, and heavy liquidation in them set in which carried the whole market with it; although considering the violence of the decline in the particular issues named, it must be said that other stocks on the list were affected much less than might have been expected.

Views as to the state of the stock market and of business conditions in the year to come as they are entertained in the financial district at the present time are naturally such as follow from the conditions that have been described. The problem is how to find money enough to carry on at its normal rate of increase the great business of the country that has been developed and at the same time to provide funds sufficient for those speculative uses of Wall Street that necessarily and legitimately flow from the prosperity of business itself. There is no question as to the outlook in the business world proper. The orders placed for goods, the pressure of traffic on the railway lines, the plans for new enterprises and all the data bearing upon what the economists call the "consumptive demands" of the country in the twelve months to come are such as to assure, the prospect of fair crops being conceded, even greater prosperity in 1907 than was experienced in the year just ended. Nor is there the slightest reason to doubt the sound and substantial character of the national well being that has come about. It rests primarily upon the great increase in the actual wealth of the Western part of the country and the development of the West that has been induced by the high prices that have been obtained for agricultural products in recent years, these in turn owing chiefly to the increase in the population of the country. It may be that the growth of consumption in our country and throughout the world has been stimulated in the last decade by the increased production of gold. Inflation in some degree always accompanies such a period of rising prices as has recently been witnessed; but the fundamental reasons for the prosperity of our country are, it is believed, those that have herewith been stated. They are manifestly of a permanent and enduring character. It is obvious, furthermore, that too great consideration should not be given to the high range of money in the closing months of the year as indicating the general conditions that are apt to prevail throughout a long further period of time. Every intelligent person realizes that many of the causes leading to the present exigencies are of temporary nature and must, if precedents in such affairs are any guide at all, be of lessened power during the early months of the coming year. It would be very surprising, indeed, if a greater ease of money does not assert itself in January and February and if the stock market does not reflect the fact. It is to be remembered, on the other hand, however, that in the case of a country, just as with a business house or an individual, a greater amount of business cannot be transacted than the capital or the credit of the concern justifies; and instances are numerous in the history of business of firms that have found themselves in difficulties right when their affairs were more active and thriving than ever before simply on account of their inability to obtain ready money. While business has not been stimulated in other lands by the same causes exactly as those operating here, it is nevertheless at the moment at a very rushing pace there, so much so that our desires to draw money from Europe are precluded, so to speak, by our own com-

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